# REPORT OF THE AUDIT OF THE FORMER WOLFE COUNTY SHERIFF

For The Year Ended December 31, 2008



## CRIT LUALLEN AUDITOR OF PUBLIC ACCOUNTS

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#### **EXECUTIVE SUMMARY**

### AUDIT EXAMINATION OF THE FORMER WOLFE COUNTY SHERIFF

### For The Year Ended December 31, 2008

The Auditor of Public Accounts has completed the former Wolfe County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Financial Condition:**

The former Wolfe County Sheriff paid excess fees in the amount of \$271 to the Fiscal Court as of December 31, 2008. Revenues decreased by \$9,298 from the prior year and expenditures decreased by \$9,569.

#### **Lease Agreement:**

Capital lease principal agreements totaled \$1,669 as of December 31, 2008.

#### **Report Comments:**

2008-01	The Former Sheriff's Office Lacked Adequate Segregation Of Duties
2008-02	The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

#### **Deposits:**

The former Sheriff's deposits as of December 1, 2008 were exposed to custodial credit risk as follows:

• Uncollateralized and Uninsured \$642,072

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The Honorable Raymond Hurst, Wolfe County Judge/Executive The Honorable Henry V. Dunn, Former Wolfe County Sheriff The Honorable Chris Carson, Wolfe County Sheriff Members of the Wolfe County Fiscal Court

#### Independent Auditor's Report

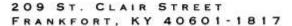
We have audited the accompanying statement of revenues, expenditures, and excess fees regulatory basis of the former Sheriff of Wolfe County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States, and the <u>Audit Guide for County Fee Officials</u> issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated July 20, 2009 on our consideration of the former Wolfe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be considered in assessing the results of our audit.





The Honorable Raymond Hurst, Wolfe County Judge/Executive The Honorable Henry V. Dunn, Former Wolfe County Sheriff The Honorable Chris Carson, Wolfe County Sheriff Members of the Wolfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties
 The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the former Sheriff and Fiscal Court of Wolfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Crit Luallen

**Auditor of Public Accounts** 

July 20, 2009

## WOLFE COUNTY HENRY V. DUNN, FORMER SHERIFF STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

#### For The Year Ended December 31, 2008

#### Revenues

Federal Grants		\$ 2,900
State - Kentucky Law Enforcement Foundation Program Fund		3,560
State Fees For Services: Finance and Administration Cabinet Cabinet for Health and Family Services	\$ 9,230 1,140	
Sheriff Security Service	 16,042	26,412
Circuit Court Clerk:		
Fines and Fees Collected		2,305
Fiscal Court		28,612
County Clerk - Delinquent Taxes		1,675
Commission On Taxes Collected		54,015
Telecommunications Tax		793
Fees Collected For Services:		
10 % Add-On Fee	12,765	
2nd Notice Advertising Fees	3,600	
Auto Inspections	1,245	
Accident and Police Reports	207	
Serving Papers	14,450	
Carrying Concealed Deadly Weapon Permits	 860	33,127
Other:		
Transports	3,345	
Donation Fund Receipts	911	
Calendar Funds	500	
Miscellaneous	 1,039	5,795
Interest Earned		258

#### **WOLFE COUNTY**

#### HENRY V. DUNN, FORMER SHERIFF

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS For The Year Ended December 31, 2008

(Continued)

#### Revenues (Continued)

Borrowed Money:		
State Advancement		\$ 26,574
T-4-1 D		196.026
Total Revenues		 186,026
Expenditures		
Operating Expenditures and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	\$ 49,252	
Contracted Services-		
Computer Services	2,420	
Materials and Supplies-		
Office Materials and Supplies	1,562	
Uniforms	1,218	
Auto Expense-		
Gasoline	18,780	
Maintenance and Repairs	8,600	
Other Charges-		
Donation Fund Expenditures	911	
Telephone	1,397	
Dues	387	
Postage	429	
Post Box Rental	40	
Checks and Deposit Books	269	
Miscellaneous	532	
Capital Outlay-		
Office Equipment	 1,126	86,923
Debt Service:		
State Advancement		 26,574
Total Expenditures		 113,497

#### **WOLFE COUNTY**

#### HENRY V. DUNN, FORMER SHERIFF

STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS For The Year Ended December 31, 2008

(Continued)

Net Revenues Less: Statutory Maximum	\$ 72,529 68,733
Excess Fees Less: Training Incentive Benefit	 3,796 3,525
Excess Fees Due County for 2008 Payment to Fiscal Court - February 25, 2009	 271 271
Balance Due Fiscal Court	\$ 0

#### WOLFE COUNTY NOTES TO FINANCIAL STATEMENT

December 31, 2008

#### Note 1. Summary of Significant Accounting Policies

#### A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

#### B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the former Sheriff as determined by the audit. KRS 134.310 requires the former Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

#### C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WOLFE COUNTY NOTES TO FINANCIAL STATEMENT December 31, 2008 (Continued)

#### Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

#### Note 3. Deposits

The former Wolfe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the former Sheriff did not have a written agreement with the bank.

#### Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Wolfe County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). On December 1, 2008, the former Sheriff's bank balance was exposed to custodial credit risk as follows:

• Uncollateralized and Uninsured \$ 642.072

#### Note 4. Lease

The office of the former Sheriff was committed to a lease agreement with Xerox for a copier. The agreement requires a monthly payment of \$46 for 60 months to be completed on January 1, 2012. The total remaining balance of the agreement was \$1,669 as of December 31, 2008.

WOLFE COUNTY NOTES TO FINANCIAL STATEMENT December 31, 2008 (Continued)

#### Note 5. Special Account

The former Wolfe County Sheriff's office received a \$1,100 donation from Bretagne, LLC for the purchase of police radios to be used by the office. The former Sheriff's office opened a special account to maintain and track donated funds from outside parties. Expenditures from the account during the year totaled \$900. As of December 31, 2008, the former Wolfe County Sheriff's Special Account had a balance of \$200.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



The Honorable Raymond Hurst, Wolfe County Judge/Executive The Honorable Henry V. Dunn, Former Wolfe County Sheriff The Honorable Chris Carson, Wolfe County Sheriff Members of the Wolfe County Fiscal Court

> Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards

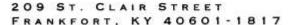
We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Wolfe County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated July 20, 2009. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

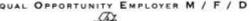
In planning and performing our audit, we considered the former Wolfe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations as item 2008-01 to be a significant deficiency in internal control over financial reporting.







Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statement Performed In Accordance With Government Auditing Standards (Continued)

#### Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

#### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the former Wolfe County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instances of noncompliance or other matters that is required to be reported under <u>Government Auditing Standards</u> and which is described in the accompanying comments and recommendations as item 2008-02.

This report is intended solely for the information and use of management, the Wolfe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen

**Auditor of Public Accounts** 

July 20, 2009



## WOLFE COUNTY HENRY V. DUNN, FORMER SHERIFF COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

#### INTERNAL CONTROL - MATERIAL WEAKNESS:

#### 2008-01 The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties for receipts and disbursements. Due to the entity's diversity of official operations, small size, and budget restrictions, the former Sheriff had limited options for establishing an adequate segregation of duties. Currently, the bookkeeper collects receipts, records transactions, issues and signs checks, and posts amounts to the receipts and disbursements ledgers. The former Sheriff should have either segregated these duties or performed the following compensating controls in order to help offset this weakness:

- Agreed daily deposits to the daily checkout sheet and the receipts ledger.
- Agreed quarterly financial reports to the receipts and disbursements ledger.
- Compared invoices to payments and signed all checks.
- Performed surprise cash counts of receipts.

The former Sheriff should have initialed the supporting documentation reviewed in order to document the compensating controls.

Former Sheriff's Response: No Response.

#### STATE LAWS AND REGULATIONS:

#### 2008-02 The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of December 1, 2008, the former Sheriff had bank deposits of \$892,072; FDIC insurance of \$250,000; and collateral pledged or provided of \$754,351. Even though the former Sheriff obtained sufficient collateral of \$754,351, there was no written agreement between the former Sheriff and the depository institution, signed by both parties, securing the former Sheriff's interest in the collateral. The former Sheriff's interest into a written agreement with the depository institution to secure the former Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

Former Sheriff's Response: No Response.